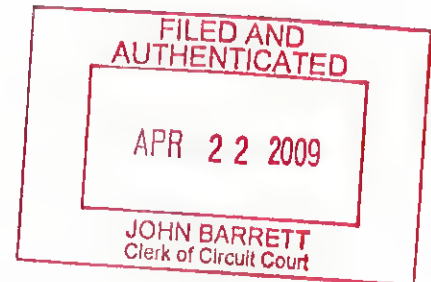


KENOSHA UNIFIED SCHOOL DISTRICT,  
KIMBERLY AREA SCHOOL DISTRICT,  
SCHOOL DISTRICT OF WAUKESHA ,  
WEST ALLIS - WEST MILWAUKEE SCHOOL DISTRICT,  
WHITEFISH BAY SCHOOL DISTRICT,  
JOSEPH T. MANGI, in his capacity as  
Trustee and on behalf of the Kenosha Unified  
School District Post Employment Benefits Trust,  
GARY M. KVASNICA, in his capacity as  
Trustee and on behalf of the Kimberly Area  
School District Post Employment Benefits Trust ,  
MARK J. POWELL, in his capacity as  
Trustee and on behalf of the School District of Waukesha  
Wisconsin Post Employment Benefits Trust,  
KURT WACHHOLZ, in his capacity as  
Trustee and on behalf of the West Allis-West Milwaukee  
School District Post Employment Benefits Trust, and  
SHAWN M. YDE, in his capacity as  
Trustee and on behalf of the Whitefish Bay  
School District Post Employment Benefits Trust,



Plaintiffs,

Case No. 2008CV013726

v.

Case Code: 30303, 30106

STIFEL NICOLAUS & COMPANY, INCORPORATED,  
STIFEL FINANCIAL CORP.,  
JAMES M. ZEMLYAK,  
ROYAL BANK OF CANADA EUROPE, LTD.,  
RBC CAPITAL MARKETS CORPORATION, and  
RBC CAPITAL MARKETS HOLDINGS (USA) INC.

Defendants.

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**AMENDED COMPLAINT**

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Plaintiffs, through their attorneys, Shepherd, Smith, Edwards &  
Kantas, LLP and Kravit, Hovel & Krawczyk, s.c., for their Amended Complaint,  
allege as follows:

## NATURE OF THE ACTION

1. In 2006, the Plaintiff Trusts collectively paid \$200 million to purchase an investment that they were led to believe by Defendants was a safe and secure solution to fund the Plaintiff Districts' rapidly increasing Other Post-Employment Benefits liabilities ("OPEB"). The investment recommended by the Defendants required the Plaintiffs to borrow \$165 million from Depfa Bank, a foreign bank, and invest an additional \$35 million of the Districts' money, to fund the Plaintiff Trusts' purchase of the investment. Because this was such a "conservative" investment, the Trusts' anticipated returns were to be modest: about 100 basis points (1%) per year.

2. Plaintiffs chose to invest because they were told by Defendants, and reasonably relied on their representations that the risk Plaintiffs were assuming was the same as buying a diversified portfolio of corporate bonds. However, the Trusts' money was actually invested in unregistered credit derivatives. Due to the complex structure of the investment, including the terms of the Trusts' borrowing, the true risks of Defendants' program were far greater than those represented by the Defendants or understood by the Plaintiffs.

3. For example, Defendants failed to explain to the Plaintiffs that cumulative losses of just 4 or 5% in the underlying portfolio could result in a 100% loss of their principal. Defendants further failed to explain to the Plaintiffs that the value of their investments could dramatically decline well before losses reached 4 or 5% of the portfolio, if there was a trend of rising defaults in that portfolio. And

Defendants lied to the Plaintiffs about the investments meeting Wisconsin's most conservative statutory investment guidelines.

4. The sale of these derivatives to the Plaintiff Trusts was, in fact, illegal. Because the product was an unregistered security, it could only be lawfully sold to certain types of large, ultra-sophisticated investors. Defendants' own investment materials conceded this point, stating that the investment could "only be sold within the United States to (i) qualified institutional buyers ... or (ii) institutions that qualify as 'accredited investors.'" The Plaintiff Trusts were neither, which was known to the Defendants but not to the Plaintiffs. But Defendants sold the unregistered credit derivatives to them anyway, thereby vesting the Trusts with a right of rescission and creating potential regulatory exposure for the Defendants beyond this case.

5. To date, Defendants' investment scheme has caused Plaintiffs' investments to decline in value by more than \$190 million. This action seeks redress for Defendants' fraud, including rescission of the transactions, money damages, attorney's fees and costs.

### **PARTIES**

6. There are two sets of Plaintiffs in this matter. The first set is comprised of five Wisconsin school districts from Kenosha, Kimberly, Waukesha, West Allis-West Milwaukee and Whitefish Bay (collectively, the "School Districts"). The School Districts were the targets of fraudulent sales solicitations from the Defendants. The second set of Plaintiffs is comprised of the Post Employment

Benefits Trusts for each School District (collectively, the “OPEB Trusts”). The OPEB Trusts were the actual investors in the fraudulent scheme created and executed by the Defendants.

7. The proper names of the five school district Plaintiffs are: Kenosha Unified School District; Kimberly Area School District; School District of Waukesha; West Allis-West Milwaukee School District; and Whitefish Bay School District. Each of the School Districts is statutorily-authorized to perform school administration in its respective municipality.

8. Plaintiff Joseph T. Mangi is a natural person and resident of Wisconsin who brings suit in his capacity as Trustee and on behalf of the Kenosha Unified School District Post Employment Benefits Trust (the “Kenosha Trust”). The Kenosha Trust was established on June 28, 2005 and, at the Defendants’ suggestion, amended on August 22, 2006 in order to hold the investment that is the subject of this Action. At no time prior to making the investment that is the subject of this Action did the Kenosha Trust contain assets of \$5 million or more.

9. Plaintiff Gary M. Kvasnica is a natural person and resident of Wisconsin who brings suit in his capacity as Trustee and on behalf of the Kimberly Area School District Post Employment Benefits Trust (the “Kimberly Trust”). The Kimberly Trust was established on August 28, 2006 for the specific purpose of holding the investment that is the subject of this Action. At no time prior to making the investment that is the subject of this Action did the Kimberly Trust contain assets of \$5 million or more.

10. Plaintiff Mark J. Powell is a natural person and resident of Wisconsin who brings suit in his capacity as Trustee and on behalf of the School District of Waukesha, Wisconsin Post Employment Benefits Trust (the “Waukesha Trust”). The Waukesha Trust was established on June 26, 2006 for the specific purpose of holding the investment that is the subject of this Action. At no time prior to making the investment that is the subject of this Action did the Waukesha Trust contain assets of \$5 million or more.

11. Plaintiff Kurt Wachholz is a natural person and resident of Wisconsin who brings suit in his capacity as Trustee and on behalf of the West Allis-West Milwaukee School District Post Employment Benefits Trust (the “West Allis Trust”). The West Allis Trust was established on May 8, 2006 for the specific purpose of holding the investment that is the subject of this Action. At no time prior to making the investments that are the subject of this Action did the West Allis Trust contain net assets of \$5 million or more.

12. Plaintiff Shawn M. Yde is a natural person and resident of Wisconsin who brings suit in his capacity as Trustee and on behalf of the Whitefish Bay School District Post Employment Benefits Trust (the “Whitefish Bay Trust”). The Whitefish Bay Trust was established on June 1, 2003, amended on November 11, 2004 and then, at the Defendants’ suggestion, amended again on November 27, 2006 in order to hold the investment that is the subject of this Action. At no time prior to making the investment that is the subject of this Action did the Whitefish Bay Trust contain assets of \$5 million or more.

13. The OPEB Trusts, as amended, are all trusts validly formed and existing under the laws of the state of Wisconsin.

14. Defendant Stifel Financial Corp. (“Stifel Financial”) is a foreign corporation incorporated in the state of Missouri with its principal place of business in St. Louis, Missouri.

15. Defendant Stifel, Nicolaus & Company, Incorporated (“Stifel”) is a foreign corporation incorporated in the state of Missouri with its principal place of business in St. Louis, Missouri. Its registered agent for service in Wisconsin is CT Corporation System, 8040 Excelsor Drive, Suite 200, Madison, WI 53717.

16. Stifel is registered with the Securities Exchange Commission (“SEC”) as a broker-dealer. Stifel is registered to transact business and transacts business within Wisconsin through several offices located in the State. Although Stifel had long maintained a prominent downtown Milwaukee office, almost all of the employees assigned to that office — the majority of whom worked in Stifel’s Public Finance Division, which was the division responsible for the sale of this investment — were terminated without advance notice on or about Monday, February 23, 2009.

17. Stifel is a subsidiary of Stifel Financial, which owns at least 75% of Stifel. Stifel’s Central Registration Depository (“CRD”) reflects that Stifel Financial is a “control person” of Stifel within the meaning of applicable laws, directing the management and policies of Stifel.

18. Stifel is a member of the Financial Industry Regulatory Authority ("FINRA").<sup>1</sup> As such, Stifel has contractually agreed to abide by and act in accordance with the rules and regulations of FINRA.

19. Defendant James M. Zemlyak ("Zemlyak") is an adult resident of Elm Grove, Wisconsin.

20. Upon information and belief, during all times relevant to this Complaint, Zemlyak was the Chief Financial Officer and Co-Chief Operations Officer, Director and a Control Person of the Defendant Stifel and had apparent and actual authority to represent Stifel.

21. At all times relevant to this Complaint, Defendant Zemlyak was acting within the scope of his authority as an agent, representative, and/or employee of Stifel, and Stifel is therefore liable for Zemlyak's wrongful acts, errors, and/or omissions as complained of herein under theories of agency, *respondeat superior*, and control person liability.

22. For many years, the School Districts transacted business with Defendant Stifel through Stifel's agent, David W. Noack ("Noack"), who was well-known to the Plaintiffs and was a trusted financial advisor to them. Noack had the assistance of other Stifel employees and agents in preparing, presenting, promoting and advising the School Districts with respect to the investment that is the subject of this Complaint, including, but not limited to, Defendant Zemlyak, Brian Brewer, Michelle Wiberg, Steve Kornetzke and others in Milwaukee; Joe Sullivan, Neil

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<sup>1</sup> FINRA was formerly known as the National Association of Securities Dealers ("NASD").

Fitzgerald, Darren Wolberg, Dick Himmelfarb and others in Baltimore; and Stifel CEO Ron Kruszewski.

23. During the period of time when the investments at issue here were sold to the OPEB Trusts, Noack and Brewer were registered representatives and agents of Defendant Stifel and had apparent and actual authority to represent Stifel. At all times relevant to this Complaint, Noack and Brewer were acting within the scope of their authority as an agent, representative, and/or employee of Stifel, and Stifel is therefore liable for the wrongful acts, errors, and/or omissions of Noack and Brewer, and other Stifel employees, complained of herein under theories of agency, *respondeat superior*, control person liability; and failure to supervise.

24. Defendant Royal Bank of Canada Europe, Ltd. ("RBC Europe") is a foreign corporation with its primary place of business in London, United Kingdom. RBC Europe is a UK-authorized bank, and provides a range of banking, financial, and related services internationally, including within the state of Wisconsin.

25. Defendant RBC Capital Markets Corporation ("RBC Capital") is a Minnesota corporation with its principal place of business at One Liberty Plaza, 165 Broadway, New York, NY. Its registered agent for service in Wisconsin is CT Corporation System, 8040 Excelsor Drive, Suite 200, Madison, WI 53717. RBC Capital is registered to transact business and transacts business within the state of Wisconsin.

26. RBC Capital is the corporate and investment banking division of the Royal Bank of Canada. RBC Capital is registered with the SEC as a broker-



dealer and is a member firm of FINRA. As such, RBC Capital has contractually agreed to abide by and act in accordance with the rules and regulations of FINRA.

27. RBC Capital is a wholly owned subsidiary of the Defendant, RBC Capital Markets Holdings (USA) Inc. ("RBC Holdings"), which in turn is a wholly owned indirect subsidiary of the Royal Bank of Canada.

28. RBC Holdings is a Delaware corporation with its principal place of business at 100 South Fifth Street, Suite 1075, Minneapolis, MN 55402. Its agent for service of process is The Corporation Trust Company, 1209 Orange Street, Wilmington, DE 19801.

29. RBC Holdings owns at least 75% of RBC Capital. RBC Capital's CRD reflects that RBC Holdings is a "control person" of RBC Capital within the meaning of applicable laws, directing the management and policies of RBC Capital.

30. RBC Capital, through Deb Pederson and others, prepared and participated in preparation of sales and solicitation materials for use to promote the investment that is the subject of this lawsuit.

### **JURISDICTION & VENUE**

31. This court has jurisdiction over Defendant Zemlyak pursuant to Wis. Stat. § 801.05(1)(b) in that he is a natural person domiciled in the State of Wisconsin.

32. This court has jurisdiction over the remaining Defendants pursuant to Wis. Stat. § 801.05(1)(d) in that each of them engaged in substantial and not isolated activities within the State of Wisconsin.

33. Venue in this court is proper pursuant to Wis. Stat. § 801.50 in that each of the Defendants does substantial business in Milwaukee County.

## **GENERAL ALLEGATIONS**

### **THE PROBLEM: MOUNTING OPEB LIABILITIES**

34. Decades ago, the School Districts made promises to their teachers, staff, and administrators — promises to provide pension benefits and also Other Post Employment Benefits or OPEB.

35. These benefits, such as future health insurance benefits, were negotiated into labor and employment contracts. While they were relatively inexpensive at the time they were agreed to, the cost of providing such benefits has continued to escalate over the years. Because the OPEB liabilities are contractual in nature, the School Districts have a legal obligation of payment.

36. For many years, the School Districts, which are subject to financial reporting and accounting standards set forth by the Governmental Accounting Standard Board (“GASB”), were permitted to report their OPEB obligations as expenses on their current income and cash flow statements. Most of these entities chose not to pre-fund their long-term OPEB liabilities, but rather to allocate a certain portion of their annual operating budget to pay for such costs as they were incurred.

37. In June 2004, GASB issued Statement No. 45, which provided, among other things, that entities subject to GASB standards, such as the School Districts, must report their OPEB obligations as long-term liabilities on their balance

sheets, disclosing not only the amount of their OPEB liability, but also the planned method of funding that liability.

38. As a result of GASB Statement 45, the School Districts were required to determine and account for their OPEB liabilities not later than December 15, 2006. Such liabilities were determined through actuarial studies that were required of each School District.

39. The findings were alarming. At the time of the initial studies, the School Districts were found to have at least \$432 million of potential OPEB liabilities, with approximately \$136 million for West Allis-West Milwaukee; \$136.5 million for Kenosha; \$95 million for Waukesha; \$43.4 million for Whitefish Bay; and \$21.4 million for Kimberly.

40. The School Districts had no choice but to consider large-scale investment strategies to pre-fund their OPEB obligations in order to compensate for the additional liabilities on their balance sheets. The OPEB Trusts were formed by the School Districts for the purpose of investing trust assets with the goal of funding the School Districts' OPEB Liabilities, while also promoting the stability of the School Districts' budgets and easing the burden on the School Districts' taxpayers.

41. From an accounting perspective, when contributions to the OPEB Trusts are made, the liabilities reported in the School Districts' financial statements decrease. And if the trust contributions are equal to the Annual Required Contribution ("ARC"), the reported liability is zero. School District financial statements are critical to their credit ratings, which in turn significantly affect rates

for issuing school bonds and other borrowings to engage in regular School District activities such as short term borrowing, and maintaining and constructing school facilities. Defendants knew it was important to Plaintiffs that the OPEB Trust investments would allow the School Districts to minimize reported OPEB liability on their financial statements.

42. From an accounting perspective, when contributions to the OPEB Trusts are made, the liabilities reported in the School Districts' financial statements decrease. And if the trust contributions are equal to the Annual Required Contribution ("ARC"), the reported liability is zero. School District financial statements are critical to their credit ratings, which in turn significantly affect rates for issuing school bonds and other borrowings to engage in regular School District activities such as building or remodeling schools. Defendants knew it was important to Plaintiffs that the OPEB Trust investments would allow the School Districts to report zero, or minimal, OPEB liability on their financial statements.

43. Ostensibly to assist the School Districts and other entities similarly situated, the State of Wisconsin passed legislation, known as "Act 99"<sup>2</sup> in January of 2006. Act 99 permitted the School Districts to establish trusts for the purpose of borrowing and investing money to help fund their OPEB liabilities.

44. Act 99 also permitted the School Districts to make investments under Wisconsin's Uniform Prudent Investor Act.<sup>3</sup> These statutory changes provided the School Districts with greater latitude in investing to fund their OPEB liabilities

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<sup>2</sup> Act 99 is codified as Wis. Stat. § 66.0603(b)3.

<sup>3</sup> Wis. Stat. § 881.01.

than had previously been possible. Act 99 permitted long-term investments with the potential of increased investment return.

45. Prior to Act 99, the School Districts investment options were limited. The permitted investments were generally of a short-term nature with lower investment risks and returns. For example, in the years before Act 99, the School Districts could invest in such things as certificates of deposit, bonds guaranteed by the federal government, and corporate bonds with maturities of seven years or less bearing an S&P rating of AAA or AA.<sup>4</sup> These types of conservative investments came to be known to the School Districts and other municipalities as those qualifying for the “Legal List” of permitted investments under Wis. Stat. Ch. 66.

46. By establishing the OPEB Trusts to contribute to the ARC on an annual basis, it was believed that the burden on the School Districts’ taxpayers would decrease over time as funds in the trusts were accumulated.

47. It was also believed that this method of funding the OPEB liability would positively impact the School Districts’ future bond ratings and, therefore, decrease their operating costs. If such actions were not taken, the reporting requirements of GASB Statement 45 would have created an ever-increasing OPEB liability, while the absence of a long-term plan for funding would have negatively impacted the School Districts’ future bond ratings, and thereby increased the School Districts’ operating costs.

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<sup>4</sup> Wis. Stat. § 66.0603.

48. Because trust assets could only be used to pay the School Districts' OPEB obligations, establishing the OPEB Trusts had the benefit of providing employees with the security that their benefits would be available to them at retirement.

#### **DEFENDANTS PROPOSE A SOLUTION**

49. The change in GASB accounting rules, the passage of Act 99, and its attendant relaxation of investment restrictions had another, less desirable effect: it made the Plaintiffs prime targets for brokerage firms, banks and other investment advisors, such as RBC and Stifel, who were interested in selling products to them that would not have qualified as acceptable under the stricter pre-Act 99 requirements.

50. Seizing on the opportunity, Stifel, Zemlyak and other Stifel employees created the Stifel Nicolaus GOAL Program ("GOAL" is the Stifel devised marketing acronym for Government OPEB Asset & Liability program). Stifel and its representatives, along with RBC Global, presented the GOAL Program individually and collectively to each of the School Districts in 2006. The centerpiece of the GOAL Program was investment in a series of unregistered credit derivatives called Credit Linked Notes ("CLNs"). These CLNs were designed to perform like synthetic Collateralized Debt Obligations ("CDOs") and were to be purchased largely with borrowed money.

51. Stifel and RBC Global presented the Stifel GOAL program to the School Districts as the proposed solution to the School Districts' OPEB liability

problem. The proposed solution was complex, convoluted, and opaque, and as Stifel and RBC then well knew, beyond the investment knowledge or experience of the OPEB Trusts, their trustees, the School Districts, their school board members, and their administrators.

52. The Stifel GOAL Program called for Plaintiffs to engage in complex and highly-leveraged investing. On the surface, the concept behind the Stifel GOAL Program was relatively simple: Plaintiffs would borrow money at one rate and invest in instruments that would earn a slightly higher interest rate. The spread between the amount earned periodically on the investment and the amount paid periodically to the lender would grow over time and accumulate to assist Plaintiffs in meeting their future OPEB liabilities. The expected spread on these investments was very low — less than 100 basis points (1%) — indicative of an extremely conservative investment. Upon information and belief, the appropriate returns for this type of volatile investment should have been 6 to 7 times higher (600 to 700 basis points per year). By inducing Plaintiffs to unwittingly bear that high risk at such low return, Defendants profited greatly.

53. The funding for the investment was obtained largely through a secured borrowing with a foreign bank known as Depfa Bank, with the investments themselves serving as collateral for the loan.

54. The products sold to the Trusts were AA- rated Credit Linked Notes embedded with a Credit Default Swap. By using Credit Default Swaps, these

CLNs were designed to perform like a specified tranche on a synthetic Collateralized Debt Obligation (“CDO”).

55. Upon information and belief, the GOAL Program product was sold in the indirect form — adding a layer of complexity, fees, and counterparty credit risk to the transaction — in order to further disguise it as one that qualified under the Pre-Act 99 “Legal List.”

56. A Credit Default Swap (“CDS”) is a financial contract between two counterparties who agree to exchange payments based on specific pre-defined credit events experienced by an underlying portfolio of reference assets, such as corporate bonds. Rather than a direct investment in a bond portfolio, a CDS is a form of investment insurance and its purpose is to transfer the credit risk of the underlying bond portfolio from one party to the other in exchange for a fee or premium.

57. As a result of its structure, and without Plaintiffs’ knowledge, the GOAL Program transformed the OPEB Trusts from prospective investors in corporate bonds to insurers against a low level of potential defaults in a bond portfolio. Defendants did not adequately or accurately explain this critical and risky feature of the investment.

58. The financial products sold to the Plaintiffs by Defendants are considered to be derivative financial instruments — namely “credit derivatives”. They depend on a CDS contract that the Swap Counterparty (RBC in this case) enters into with the CDO issuer or Special Purpose Entity (“SPE”). This makes



what the Trusts purchased, in essence, a derivative of a derivative. As derivatives, these unregistered securities do not meet the pre-Act 99 investment requirements imposed on the School Districts, and it was a material misrepresentation for the Defendants to represent that they did.

**DEFENDANTS' SALES PITCH CREATES A  
FALSE SENSE OF SECURITY**

59. Noack and Brewer were assigned by Stifel to work with School Districts on these investments even though Noack was an investment banker with no experience and only limited knowledge of the complex financial products that comprised the GOAL Program. However, Noack had something that was even more valuable to Stifel and RBC than such knowledge and experience: a long-term relationship of trust with the School Districts.

60. Stifel prepared the GOAL Program sales materials that were presented to the School Districts, individually and jointly. The first page of the GOAL Program presentation materials states that, "This presentation was prepared exclusively for the benefit and internal uses of the Stifel Nicolaus *client* to whom it is directly addressed and delivered (the "District")..." (Emphasis added). Within the GOAL Program presentation is a section titled "Stifel's GOAL Program, Recommendations."

61. At all times, Plaintiffs were led to believe, and did believe, that they were clients of Stifel, that Stifel was making recommendations to them, and that Noack was their financial advisor.

62. The GOAL Program presentation material further stated that the unregistered credit derivatives were “Allowable investments under *old* Wisconsin State Statutes (*prior to increased investment options under ACT 99*)” (emphasis in original).

63. This statement was materially false and misleading because, prior to Act 99, the School Districts were not permitted to invest in Credit Linked Notes, Credit Default Swaps, and similar derivative financial products.

64. In or about July 2006, Stifel sent an announcement to the School Districts inviting each School District to attend an “OPEB Investment Meeting” which was to be held at Kenosha Unified School District on July 26, 2006 (the “Announcement”). The Announcement was on Stifel letterhead and originated from Stifel’s Milwaukee, Wisconsin office.

65. Upon information and belief, Stifel financial analyst Michelle Wiberg was the primary author of the Announcement, although it is believed that others within and outside Stifel’s Milwaukee office were involved in drafting, reviewing, and approving the Announcement.

66. The second paragraph of the Announcement stated, “On Tuesday, June 27th Stifel Nicolaus and Company (“Stifel”) completed a partial funding of the OPEB liability for the School District of West Allis – West Milwaukee. The program was designed around the creation of an OPEB Trust established for the sole purpose of decreasing the overall liability over an extended period of time. Proceeds from a borrowing issued by the OPEB Trust, along with funds borrowed by

the School District, were used to purchase a “AA- rated fixed income security. The investment was structured to match the terms and interest rate resets of the borrowing with the least amount of risk. ***This investment meets Wisconsin State Statutes prior to Act 99.***” (Emphasis in original.) A true and correct copy of the announcement is attached hereto and made a part hereof as Exhibit A.

67. The Announcement was materially false and misleading in at least the following respects:

- (a) The statement that ***“This investment meets Wisconsin State Statutes prior to Act 99”*** (emphasis in original) was untrue because Synthetic CDO Credit Linked Notes are derivatives and, prior to Act 99, the School Districts were not permitted to invest in derivatives;
- (b) It was never explained to the School Districts that a “AA-” rating on a synthetic CDO/CLN did not have the same significance as a “AA-” rating on bonds of the type that the School Districts were permitted to invest in prior to Act 99, and with which they were familiar; and
- (c) The statement *“The investment was structured to match the terms and interest rate resets of the borrowings with the least amount of risk”* was both incomplete and untrue. Indeed, the nature and terms of the borrowing constituted some of the greatest risks to the Plaintiffs’ investment.

68. Defendants’ representation that the synthetic CDO Credit Linked Notes in the Stifel GOAL program met the stricter pre-Act 99 requirements was particularly material and comforting to the representatives of the School Districts and their OPEB Trusts. Plaintiffs’ relied on this representation and reasonably believed that, if these investments satisfied the stringent standards that existed prior to Act 99, which allowed them to invest in only the most conservative of instruments,

then the risks associated with this unfamiliar proposed synthetic CDO investment would be minimal.

69. Representatives of the School Districts attended the July 26, 2006 presentation. Also present were Noack, Brian Brewer, and Johanna Perine of Stifel, Deb Pederson, Chuck Powis, and Rob Pomphrett on behalf of RBC Capital Markets and RBC Dain Rauscher, and Marnin Lebovits of DEPFA Bank.

70. Plaintiffs followed Stifel's recommendation and purchased the products offered in the GOAL Program. Plaintiffs borrowed approximately \$165 million from DEPFA Bank and invested an additional \$35 million in cash. Attached hereto and made a part hereof as Exhibit B is a listing of the amounts borrowed and invested by each School District.

71. Defendants represented that the interest rate spread would add up to several million dollars in investment income over the seven year life of the investment. For example, a "Flow of Funds" chart presented to the School District of Waukesha forecasts an "ANNUAL RETURN" of \$2,789,880. A true and correct copy of the Waukesha Flow of Funds chart is attached hereto and made a part hereof as Exhibit C.

72. Defendants prepared projections similar to those contained in Exhibit C for each School District. There was no future performance disclaimer included with any of these projections.

73. Defendants represented that the GOAL Program was established and highly sought-after by other school boards across the country, when in truth, as

Stifel and RBC Global well knew, they had never enrolled another district prior to soliciting the Plaintiffs. At various times, Stifel representatives stated that the firm had 200 districts that were interested in participating. Upon information and belief, this was also false and intended both to provide comfort to the Plaintiffs about investing, while motivating them to act quickly for fear that the opportunity might be lost if they did not do so.

**DEFENDANTS FAILED TO EXPLAIN AND AFFIRMATIVELY  
MISREPRESENTED THE CHARACTERISTICS AND RISK OF THE INVESTMENT**

74. Prior to the purchase of these investments, the School Districts had no experience with structured finance products. They had no understanding of the terms and concepts critical to comprehending the investments being sold to them, including terms and concepts like “asset-pooling” and “credit-tranching.” Plaintiffs were also unfamiliar with important terms such as “cumulative default rate,” “recovery rates,” “total cumulative losses” and dozens of other equally foreign terms.

75. Despite the likely existence of other more conventional investment vehicles that could have met the School Districts’ objectives, Stifel and RBC sold Plaintiffs complex and convoluted investments that required a high degree of financial sophistication and experience.

76. The closing documents were replete with nearly indecipherable legalese that, upon information and belief, was designed to mask the characteristics and risks inherent in the investments. For instance, a section of the Drawdown Prospectus that deals with “Permitted Investments” contains the following ***sentence:***

The aggregate of the Reference Entity Notional Amounts of Reference Entities that are sovereign in respect of which the "Restructuring" Credit Event is specified as being applicable in the related CDS Confirmation but "Multiple Holder Obligations" is not specified as being applicable in the related CDS Confirmation shall not be greater than the aggregate thereof on the Effective Date of the relevant CDS Transaction.

77. In their presentations, Defendants repeatedly assured Plaintiffs that these investments were adequately protected from investment losses. Such representations were highly misleading and omitted critical facts. In particular, Stifel and RBC explanatory materials did not fully describe the leveraged exposure to default risk and volatility risk embedded in the AA- synthetic CDO tranches. The diagrams and tables within these materials did not explain to Plaintiffs, for example, that once "cumulative losses" — which are defaults net of asset recovery — on the underlying pool reached 3.95%, the Plaintiffs' tranche would be completely extinguished by the next 1% of cumulative losses experienced by the pool. Nor was it disclosed that if economic circumstances were such that the underlying pool was perceived by the market as losing value, the investments would decline in value precipitously even before reaching the default point. Had the extreme nature of this leverage been properly explained to the Plaintiffs, they would not have purchased the investment.

78. The proceeds from the CLN sales to the OPEB Trusts were used to purchase pre-defined eligible collateral. Those collateral assets were then to be held by the SPE to meet any obligations it might incur under the terms of the CDS — obligations which would ultimately be passed on to the OPEB Trusts.

79. The “Drawdown Prospectus” for each CLN specified the terms of the issue, and describes the “Eligible Securities” that could serve as collateral for the underlying Credit Default Swap. The Drawdown Prospectus for Sentinel Limited Series 2, for example, defines “Eligible Securities” as securities rated “at least AAA by Standard & Poor’s Ratings Services.” (Emphasis added.)

80. The Drawdown Prospectus for Sentinel Limited Series 2 further enumerates the actual securities that were initially selected as Eligible Securities for collateral for the credit-default swap. While technically rated AAA at the time of issuance, these securities were primarily bond classes from other structured finance vehicles, including sub-prime mortgage-backed CDO’s, Collateralized Loan Obligations (“CLOs”), and other residential mortgage-backed securitizations. Among the collateral securities were tranches from CDOs that were structured securitizations that contained other existing CDO classes.

81. Upon information and belief, RBC structured the product in this way to move illiquid (and potentially distressed) assets off of its books and into the collateral accounts of the offshore SPEs (Tribune, Sentinel 1, and Sentinel 2) that it created. By so doing, RBC was able to clean up its balance sheet while transferring the risk associated with those assets onto unsuspecting and unsophisticated investors like the Plaintiffs in this case. Of course, this ulterior motive was never disclosed by RBC to any of the Plaintiffs.

82. Plaintiffs asked and were repeatedly assured by the Defendants that the underlying collateral holdings of the SPEs were AA/AAA rated corporate

bonds and that there was no sub-prime debt in the SPE collateral portfolios. There were no documents provided by the Defendants to the Plaintiffs that would have permitted the Plaintiffs to verify the truth or falsity of this statement prior to closing. However, documents uncovered subsequently by Plaintiffs have revealed those statements to be verifiably false.

83. When questioned by the Plaintiffs about the make-up of the underlying collateral, and the potential inclusion of any sub-prime debt, Noack contacted Deb Pederson of RBC Global with that inquiry. Ms. Pederson assured Noack that the CDO collateral, which was purchased with investors' funds, had no exposure to sub-prime debt. Noack then represented to Plaintiffs that there was no sub-prime debt in the collateral portfolio. This representation on the part of Ms. Pederson was materially false and known by her to be false at the time it was made, in circumstances where she well knew the information would be communicated to Plaintiffs, and that Plaintiffs would rely on it.

84. Pederson was also known to the School Districts in that she attended the July 26, 2006 presentation to all of the School Districts and made direct representations on behalf of RBC Global.

85. At all times relevant to this Complaint, Pederson was acting within the scope of her authority as an agent, representative, and/or employee of RBC Global and had apparent and actual authority to represent RBC Global which is therefore liable for the wrongful acts, errors, and/or omissions as complained of herein under theories of agency, *respondeat superior*, and failure to supervise.



86. Regarding the nature of the CDO investments and their attendant risks, Defendants and their agents, including Pederson, Noack and Brewer, made numerous false representations to each of the School Districts, including but not limited to, misrepresentations that used the following words or words to the same effect:

- “On the investment side, we’re sticking to AA/AAA.”
- “These are safe AA/AAA type investments.”
- “It’s a AA rated investment [and . . .] meets statute prior to new rules that allow you to invest in anything, so we’re staying on the conservative side.”
- “It takes 20 out of these 100 companies to default before it gets to your AA level.”
- “There would need to be 15 Enrons before you would be impacted.”
- “We’re taking very little risk in AA and AAA securities and what we make is as risk free as we can get with AAA and AA.”
- “The biggest risk, not the credit risk, since we’re sticking to AA, but it’s the mark to market where the valuation of these investments can fluctuate based on supply and demand and interest rate, ***but it has nothing to do with the fact that you’ll still get your money back at the end.***”
- There is no sub-prime debt within any of the CDOs.

87. Despite Defendants’ promises that this was a conservative investment, at least some of the collateral held by the SPEs contained home equity loans, leases, residential mortgage loans, commercial mortgage loans, auto finance receivables, credit card receivables and other debt obligations. Upon information and belief, the collateral also included residential mortgage-backed securities, including non-conforming (sub-prime) mortgage loans, which are mortgage loans that do not qualify for purchase by government-sponsored agencies because of credit

characteristics that do not satisfy Fannie Mae and Freddie Mac guidelines. Such non-conforming loans included loans to mortgagors who have a record of credit write-offs, outstanding judgments, prior bankruptcies and other negative credit items. This information was material to the transaction and was either intentionally or negligently misrepresented and/or omitted by all Defendants, including RBC Global. Had any of this information been disclosed, Plaintiffs would not have invested in the CLNs.

88. The substandard quality of the collateral, if accurately disclosed, would have been enough to convince the School Districts to pass on these investments. In addition, there were flagrant omissions and failures to disclose concerning the portion of the GOAL Program that relates to the much higher default risks Plaintiffs unknowingly took on in the CDS portion of the transactions.

89. In essence, the OPEB Trusts were made the insurer of the risk on a portfolio of approximately 100 corporate bonds.<sup>5</sup> This was not explained to the Plaintiffs by any of the Defendants. The details of the CDS were drafted by RBC Europe and RBC Global in such a way that the true risk to the Plaintiffs was obscured.

90. It was represented to the School Districts by Stifel and RBC Capital that the School Districts actually owned the equivalent of a portfolio of investment grade bonds. This was another material misrepresentation on the part of Stifel and RBC Capital upon which the Plaintiffs relied to their detriment.

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<sup>5</sup> The Investment Trusts were actually made the insurer of a risky, low-level tranche of the corporate bond portfolio owned by RBC.

91. At no time during the presentation, and at no time prior to the closing of the Synthetic CDO transactions, did any of the Defendants explain to Plaintiffs the effect of the investment's tranching or the concept of "attachment" and "detachment." It was never disclosed to the Plaintiffs that cumulative losses of just 4 to 5% in the underlying collateral would result in a 100% loss of the Plaintiffs' \$200 million investment. This was a material omission on the part of all Defendants.

92. An investment structured in this manner would not have come close to qualifying as an acceptable one under the pre-Act 99 requirements that it was represented to have met. Plaintiffs had no way of assessing the true risks associated with the investment. Had they known of the information that Defendants failed to disclose, or had they known the truth about the material facts that Defendants misrepresented, none of the School Districts would have participated in the transactions.

**DEFENDANTS DID NOT DISCLOSE THE RISKS INHERENT  
IN THIS COLLATERALIZED BORROWING**

93. As alleged herein,, the GOAL Program was a two-part package containing an asset component, namely the Synthetic CDO Credit-Linked Notes, and a liability component, primarily the funding provided by Depfa Bank (the "Funding"), along with additional capital provided by the Plaintiffs. Depfa Bank loaned \$165 million to the OPEB Trusts and the School Districts contributed an additional \$35 million.

94. The funding provided by Depfa Bank was in the form of "Trust Promissory Notes" held by Depfa Bank. Under the terms of the Notes, Depfa Bank

was to earn interest at the rate of 3-month LIBOR + 18 basis points with a maturity date of approximately 7 years from the issuance date, matching the tenor of the synthetic CDO investments.

95. Through various charts and tables in its presentation materials, Stifel and RBC repeatedly portrayed the GOAL Program as an investment plan with a 7-year life that would safely and reliably net a positive spread between investment income and funding costs. Such a portrayal was materially misleading. The truth is that due to the terms and nature of the loan from Depfa Bank, the entire investment program carried a perpetual risk of collapse, or at a minimum, demands for sizeable additional capital infusions from the School Districts.

96. In a secured borrowing generally, the lender receives collateral in the form of cash or investments as security for the loan. In this case, the Depfa loan was secured by the \$35 million contributed by the School Districts and the OPEB Trusts' investments in the CLNs. Depfa further required that the market value of the OPEB Trust collateral — the CLNs — be maintained at a pre-specified level throughout the life of the loan. Should the value of the collateral fall below that level, Depfa Bank has the right to demand cash or additional investment assets to restore the total collateral value. This is commonly referred to as a "margin call." Should the borrower fail to meet the margin call, the lender has the right to liquidate the collateral and terminate the loan.

97. One district, West Allis – West Milwaukee, has already suffered a margin call in this case. Rather than risk further penalty interest or foreclosure, West Allis was coerced to contribute an additional \$10 million in new cash collateral.

98. The terms of a secured borrowing typically enable the lender to move aggressively to protect the amount it has at risk in the loan. If a forced liquidation occurs during a time of market distress, the amount realized may leave a sizeable deficit still owing to the lender, particularly if the assets are illiquid or currently out of favor with the investment community. This risk and consequences of possible forced liquidation was never adequately explained to the Plaintiffs.

99. The terms of the Depfa funding also contained numerous features intended to protect Depfa Bank to the detriment of the Plaintiffs in the event of a decline in the value of the synthetic CDO's. These included the following:

- Initial collateral value equal to 103% of the Funding
- Ongoing requirement to maintain collateral equal to 101% of Funding
- Stepped-up interest rates should collateral value fall below 100% of Funding
- Lender right to liquidate collateral should value fall below 95% of Funding

100. By linking the Depfa funding and collateral requirements to the market value of the investment, the GOAL Program could not be a program that would automatically and perpetually earn the intended positive spread, as represented by Defendants. On the contrary, the continuation of the program was dependent upon stability in the market value of one of the world's most volatile, illiquid, and complex investment instruments: Synthetic CDO Credit-Linked Notes.

101. A decline in the market value of these assets placed the Plaintiffs at risk of needing to raise and provide additional funds to the lender or face one or both of the following consequences:

- A stepped-up interest rate on the borrowed money which virtually eliminated the interest spread that was the entire rationale of the program.
- A forced liquidation of the CLN's, with a "Moral Obligation" to pay the lender any additional amount that had been lent, should liquidation proceeds not be sufficient to cover the full loan amount.

102. That the GOAL Program was a secured lending program whose promised benefits were dependent upon the continued maintenance of the market value of the underlying investments was never fully explained to the School Districts. Despite the enormous potential adverse consequences of a decline in the market value of the CLN's, Defendants represented that it would take "15 Enrons" before there could be any negative impact on the holdings of the OPEB Trusts, which was simply untrue.

103. Although an interim market value decline would not necessarily be of concern to an investor who had not borrowed money for the investment and who could therefore "wait out" market value fluctuations, a leveraged investor sits at the mercy of the lender, who has the power to make margin calls or to liquidate the investment to protect their own interests. In none of the presentation materials is this distinction explained to the school districts. In fact, Defendants stated that "mark-to-market" risk had "nothing to do with" Plaintiffs' ability to recover their principal at the time of maturity, which was a material misrepresentation of the

essential structure of the investment. Had it been properly explained that as secured borrowers they faced the risk of margin calls and forced liquidations, Plaintiffs would not have purchased the investment.

**PLAINTIFFS' SYNTHETIC CDO INVESTMENTS AND THE  
DEVASTATING IMPACT OF THE CREDIT DEFAULT SWAP**

104. The School District of West Allis – West Milwaukee and the West Allis OPEB Trust invested a total of \$25,000,000 in Tribune Limited Series 30 Floating Rate Credit-Linked Notes due 2013 issued by Tribune Limited (the “Tribune Notes”). This transaction closed on June 27, 2006. Upon information and belief, Defendant Zemlyak placed the order for this initial \$25 million investment.

105. Upon information and belief, Defendant Zemlyak helped structure, devise, prepare and approve the Stifel GOAL Program. Defendant Zemlyak in conversations with Stifel representative Noack reserved for himself final authority on how to promote, market and advise Plaintiffs on this investment. Defendant Zemlyak and Stifel CEO Kruczewski decided whether the investment would involve Stifel as principal; determined the amount and timing of each purchase for the Trusts; and decided on the participation of RBC Global in preference over other providers.

106. The Tribune Notes are backed by a CDS: ACA CDS 2006-1 Tranche C which matures on June 20, 2013. The Tribune notes were rated AA- by S&P at the time of issuance, and have since been downgraded.

107. The credit risk was allocated under the ACA CDS 2006-1 Tranche C. This was never disclosed by any of the Defendants to any of the Plaintiffs,

including the School District of West Allis – West Milwaukee or its OPEB Trust. The details of the CDS were drafted by RBC Europe in a manner that concealed the true risk of default to the Plaintiffs.

108. There was no way for the Plaintiffs to evaluate the credit risk exposure in the Tribune Notes based on the documents they received from the Defendants prior to or after closing. Specifically, there was no disclosure by any of the Defendants of the risk parameters defining the CDS. The only possible way for the Plaintiffs to evaluate the credit risk embedded in their CLNs was through such an understanding.

109. An oblique reference to these risks is contained in a document to which neither the School Districts nor the OPEB Trusts were parties — the “Drawdown Prospectus” — and even that reference is buried deep within the document. Parameters necessary to evaluate the risk of the ACA CDS 2006-1 Tranche C were not included.

110. This information was material to the transaction because it would have disclosed the true risk of the investments, and was either intentionally or negligently misrepresented and/or omitted by the Defendants. Had this information been appropriately disclosed, the Plaintiffs would not have invested in the Synthetic CDOs.

111. The second CDO closing for the School Districts and the OPEB Trusts occurred on September 29, 2006. Three of the School Districts and their OPEB Trusts invested a total of \$60,000,000 in Sentinel Limited Series 1 Floating



Rate Credit-Linked Notes due 2013 (the "Sentinel 1 Notes")<sup>6</sup>. It was rated as AA- by S&P.

112. The Sentinel 1 Notes are virtually identical to the Tribune Notes discussed above. The undisclosed risk of ACA CDS 2006-1B Tranche C was channeled through Sentinel 1 to the purchasers of the Sentinel 1 Notes.

113. As with the Tribune Notes, the Sentinel 1 Notes are exposed to tranching credit risk through the CDS transaction with RBC. This was never disclosed by any of the Defendants to any of the Plaintiffs, including the purchasers of the Sentinel 1 Notes. As was also the case with the Tribune Notes, the details of the CDS were drafted by RBC Europe in a manner that concealed the true risk of default to the School Districts.

114. There was no way for the School Districts or their OPEB Trusts to evaluate the credit risk exposure in the Sentinel 1 Notes based on the documents they received from the Defendants prior to or after closing. Specifically, there was no disclosure by any of the Defendants of the risk parameters defining the C tranche of the underlying CDS in any of the closing documents for the Sentinel 1 Notes, nor were the offering documents of the synthetic CDO provided to the School Districts. Without this information, the School Districts could not know, among other things, that a 4 to 5% cumulative loss would not translate to a corresponding 4 to 5%

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<sup>6</sup> Kenosha Unified School District and the Kenosha Trust invested a total of \$17.5 million. The School District of Waukesha and the Waukesha Trust invested a total of \$25 million. The School District of West Allis-West Milwaukee and the West Allis Trust invested a total of \$17.5 million.

decrease in the value of its holdings, but rather, due to their exposure to the C Tranche, a 100% loss.

115. Had this critical information been disclosed, the Plaintiffs would not have invested in Sentinel 1.

116. The third and final CDO transaction for the School Districts and their OPEB Trusts closed on December 21, 2006 with the purchase of Sentinel Limited Series 2-USD 115,000,000 Floating Rate Credit Linked Secured Notes due 2013 (the "Sentinel 2 Notes").

117. The School Districts and their OPEB Trusts invested a total of \$115,000,000 in the Sentinel 2 Notes.<sup>7</sup> The Sentinel 2 Notes were rated AA- by S&P.

118. The Sentinel 2 Notes are virtually identical to the Tribune Notes and the Sentinel 1 Notes discussed herein. The undisclosed risk of Corinthian CSO Tranche C was channeled through the Sentinel 2 Notes to the purchasers.

119. As with the Tribune Notes and the Sentinel 1 Notes, the Sentinel 2 Notes are exposed to tranching credit risk through the CSO ("Collateralized Synthetic Obligation") transaction with RBC Europe. That is, the securities issued by Sentinel 2 synthetically bear the credit risk of Class C of the Corinthian CSO. This was never disclosed by any of the Defendants to any of the Plaintiffs, including the purchasers of the Sentinel 2 Notes.

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<sup>7</sup> The Kenosha Unified School District and the Kenosha Investment Trust invested a total of \$20 million. The Kimberly Area School District and the Kimberly Investment Trust invested a total of \$5 million. The School District of Waukesha and the Waukesha Investment Trust invested a total of \$40 million. The School District of West Allis-West Milwaukee and the West Allis Investment Trust invested a total of \$40 million. The Whitefish Bay School District and the Whitefish Bay Investment Trust invested a total of \$10 million.

120. There was no way for the School Districts or their OPEB Trusts to evaluate the credit risk exposure in the Sentinel 2 Notes based on the documents they received from the Defendants prior to or after closing. As with the Tribune Note and Sentinel 1 Note transactions, there was no disclosure by any of the Defendants — including the drafter, RBC Europe — of the risk parameters defining the C tranche of the CSO in any of the closing documents for the Sentinel 2 Notes. And the only reference to the tranching of the CSO was buried in the Drawdown Prospectus to which the School Districts were not parties. All of the credit risk in the Sentinel 2 CLNs is channeled through the C tranche of the CSO. The Districts could not have possibly understood the risk in their investments without detailed information describing the parameters of the CDS.

121. Had this critical information been disclosed, the Plaintiffs would not have invested in Sentinel 2.

122. By misrepresenting and failing to disclose the true risks of these transactions, as well as withholding access to the one document that referred (albeit cryptically) to the Plaintiffs' position in Tranche C of the CSO, Defendants succeeded in selling inappropriately risky, unsuitable investments to the School Districts and their OPEB Trusts. Defendants obtained huge fees while also being relieved of default exposure on risky debt obligations at Plaintiffs' expense.

123. At all times pertinent hereto, the Defendants had an obligation and duty to the Plaintiffs, in connection with the matters alleged herein, to comply with all applicable state requirements, rules and regulations, as well as those of the

self-regulatory agencies, including FINRA, of which certain Defendants are Members, as stated herein.

124. The Defendants and their agents offered their services as professional financial advisors to the Plaintiffs but did not provide such services as represented. Defendants misrepresented their capabilities and intentions with the assets entrusted to them. As set forth in this Complaint, Defendants engaged in misrepresentations, omissions, and negligent and/or grossly negligent behavior. Defendants did not exercise good faith and fair dealing with the Plaintiffs. Defendants representations, both by commission and omission, were false, fraudulent, knowing, intentional, reckless, and/or negligent, and were the producing and/or proximate cause of the damages as sought herein.

125. The acts, errors, misrepresentations, and omissions of the Defendants complained of herein were done willfully and maliciously, or with reckless disregard for the rights of the Plaintiffs.

**DEFENDANTS ATTEMPT TO CREATE "ACCREDITED INVESTORS"**  
**THROUGH THE OPEB TRUSTS**

126. One major limitation of the GOAL Program was that it called for the sale of unregistered securities, and the OPEB Trusts were not qualified to buy them. Under Wisconsin law, unregistered securities can only be sold to certain types of sophisticated investors, including large institutions (known as "Qualified Institutional Buyers" or "QIBs") and "Accredited Investors" or "IAIs."

127. The reason such restrictions exist is to protect smaller, less sophisticated investors from being sold complex and risky investments that they

cannot readily understand and that would be unsuitable for them anyway, which is precisely what happened in this case.

128. Defendants were well aware of the restrictions on offering and selling unregistered securities to non-qualifying investors. In key investment documents they drafted, including the “Secured Note Programme,” Defendants acknowledge that the GOAL Program investment can “only be sold within the United States to (i) *qualified institutional buyers* ... or (ii) institutions that qualify as ‘*accredited investors*.’” (Emphasis added.)

129. In order to qualify as a Qualified Institutional Buyer, the entity must be a sophisticated investor holding at least \$100 million in non-entity-related securities on a discretionary basis. Neither the School Districts nor the OPEB Trusts have ever come remotely close to qualifying as QIBs. Aware of this, Defendants needed the Plaintiffs to qualify as Accredited Investors.

130. There are several ways to qualify as an Accredited Investor. For example, natural persons with the requisite levels of net worth or annual income can qualify, along with banks, savings and loans, insurance and investment companies. In addition, certain types of pre-existing trusts and funded employee benefit plans can qualify as well.

131. The problem that the Defendants faced with this plan was that, like placing a square peg into a round hole, they couldn’t quite make it fit. In this instance, the “investors” were the OPEB Trusts and Defendants were relying on those trusts qualifying as accredited investors. In order for the OPEB Trusts, the

purchasers of the Credit Linked Notes, to qualify as IAI's, *all* of the following conditions needed to be met: (1) the trust had to be pre-existing and could not "have been formed for the specific purpose of acquiring the securities offered"; (2) the trust needed to contain total assets in excess of \$5 million prior to any contribution made to purchase the securities offered; and (3) the trusts' investment needed to be directed by a "sophisticated person."

132. None of the OPEB Trusts met all of the requirements to qualify as an accredited investor. In fact, most of the trusts did not meet any of the requirements.

133. None of the OPEB Trusts had pre-existing assets of more than \$5 million at the time of this unregistered security offering, which eliminates them from consideration as IAIs. While the Defendants could have learned the amount of assets in each OPEB Trust with little effort, upon information and belief they neither attempted to nor did obtain that information.

134. Even if the OPEB Trusts had been adequately capitalized to meet the accredited investor asset standard, three of the trusts — West Allis's, Kimberly's and Waukesha's — were formed for the specific purpose of acquiring the securities offered, which is an additional ground for disqualification. That these trusts were being established (and, with respect to Whitefish Bay and Kenosha, amended) to acquire the GOAL Program investment was readily known to the Defendants.

135. The duty to ensure that unregistered securities were not being sold to non-qualified investors fell squarely and exclusively on the shoulders of RBC

as the seller of the investments and Stifel as the placement agent. As the offering documents demonstrate beyond doubt, Defendants were aware of the rules and restrictions governing the sale of these types of investments. Accordingly, they also knew or should have known that newly-created, undercapitalized trusts could never qualify as Accredited Investors, and that it was therefore illegal for RBC to sell these financial products to the OPEB Trusts.

136. Defendants' solution to this was to attempt to shift their duties onto the OPEB Trusts and, specifically, their trustees. In a form "Acknowledgement Letter" drafted by Stifel, each trustee was required to self-certify that their trust was "financially sophisticated" and "an accredited investor" — though no explanation of what is required to actually qualify as an IAI was provided. Had it been disclosed to the trustees that their trusts could not be considered "accredited investors" if it did not hold assets of more than \$5 million, none of trustees would have signed the acknowledgement, as that was not true. By the same token, had it been disclosed that a trust cannot qualify as an "accredited investor" if it had been formed for the specific purpose of acquiring the securities offered, the trustees from West Allis, Kimberly and Waukesha would not have signed because their trusts were expressly created for that purpose.

137. Given that Defendants knew or should have known that the representations drafted by Stifel on the subjects of investor sophistication and accreditation were inaccurate, the Acknowledgement Letter in no way absolves

Defendants of their responsibilities not to offer or sell unregistered securities to non-qualifying investors, which they willfully violated in this case.

**FIRST CLAIM FOR RELIEF**  
**VIOLATIONS OF THE REGISTRATION REQUIREMENTS OF**  
**THE WISCONSIN UNIFORM SECURITIES LAW**  
**(As To All Defendants By The Plaintiff Investment Trusts)**

138. Plaintiffs repeat and reallege each of the foregoing paragraphs of this Complaint as if set forth in full.

139. By rendering financial advice, offering for sale and selling securities on behalf of residents of the state of Wisconsin, the Defendants are subject to Wisconsin's Uniform Securities Law, Wis. Stat. Ch. 551 (the "Act").

140. The Act prohibits a person to offer or sell an unregistered security in Wisconsin unless it is a "federal covered security" or "[t]he security, transaction, or offer is exempted from registration under [Chapter 551]."

141. The securities in this case were not registered under Chapter 551 and did not qualify as "federal covered securities," nor were they exempt from registration under Chapter 551.

142. Wis. Stat. § 551.59 (now Wis. Stat. § 551.509) provides for civil liability against any person who violates Wis. Stat. § 551.21 (now § 551.201). Any contractual provisions purporting to bind Plaintiffs to any waiver of Defendants' compliance with Chapter 551, including the signed Acknowledgement Letters, are void as a matter of law in Wisconsin. The rights and remedies available under Chapter 551 are in addition to any others that may exist at law or in equity.



143. As a result of Defendants' statutory violations, Plaintiffs have been damaged and are entitled to rescission of the transactions and damages in an amount to be determined at trial.

**SECOND CLAIM FOR RELIEF**  
**VIOLATIONS OF THE FRAUD AND MISREPRESENTATION PROVISIONS OF**  
**THE WISCONSIN UNIFORM SECURITIES LAW**  
**(As To All Defendants By All Plaintiffs)**

144. Plaintiffs repeat and reallege each of the foregoing paragraphs of this Complaint as if set forth in full.

145. By rendering financial advice, offering for sale and selling securities on behalf of residents of the state of Wisconsin, the Defendants are subject to Wisconsin's Uniform Securities Law, Wis. Stat. Ch. 551.

146. The Act prohibits "any person, in connection with the offer, sale or purchase of any security in this state, directly or indirectly:

- (a) [t]o employ any device, scheme or artifice to defraud;
- (b) [t]o make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading; or
- (c) [t]o engage in any act, practice or course of business which operates or would operate as a fraud or deceit upon any person."

147. The misrepresentations and omissions set forth in this Complaint violate Wis. Stat. § 551.41(2) — now renumbered as Wis. Stat. § 551.501(2), including, without limitation:

- (a) misrepresenting, on multiple occasions, that the CDO investments satisfied the stringent investment requirements imposed on the School Districts prior to the

passage of Act 99;

- (b) misrepresenting that these were direct investments in a portfolio of 100+ investment grade (AA/AAA rated) companies;
- (c) failing to disclose that the CDOs were in fact credit derivative products;
- (d) failing to disclose that the CDO and CDS holdings actually contained home equity loans, leases, residential mortgage loans, commercial mortgage loans, auto finance receivables, credit card receivables and sub-prime mortgage loans; and
- (e) failing to disclose the existence of tranching on the CDS side of the transaction, which greatly enhanced the risk that the School Districts could lose all of their \$200 million investment;

148. Wis. Stat. § 551.59 (now Wis. Stat. § 551.509) provides for civil liability against any person who violates Wis. Stat. § 551.41(2) (now § 551.501(2)). Any contractual provision purporting to bind Plaintiffs to any waiver of Defendants' compliance with Chapter 551 is void as a matter of law in Wisconsin. The rights and remedies available under Chapter 551 are in addition to any others that may exist at law or in equity.

149. Plaintiffs have been damaged by Defendants' violation of these statutory provisions in an amount to be determined at trial.

150. Additionally, § 551.59(4) of the Act provides for control person liability, stating in applicable part that:

[e]very person who directly or indirectly controls a person liable [under the above statutes], every partner, principal executive officer or director of such person, every person occupying a similar status or performing similar functions, every employee of such person who materially aids in the act or transaction constituting the violation, and every broker-dealer or agent who materially aids in the act or transaction constituting the violation, [who] are also liable jointly and severally with and to the same extent as such person, unless the person liable hereunder proves that he or she did not know, and in the exercise of reasonable care could not have known, of the existence of the facts by reason of which the liability is alleged to exist. There is contribution in cases of contract among the several persons so liable.

151. Stifel Financial and Zemlyak are control persons of Stifel and are therefore jointly and severally liable with Stifel for the acts, errors, misrepresentations, and omissions of Stifel and its employees and agents as set forth in this Complaint.

152. RBC Holdings is a control person of RBC Capital and is therefore jointly and severally liable with RBC Capital for the acts, errors, misrepresentations, and omissions of RBC Capital and its agents as set forth in this Complaint.

153. As a result of Defendants' statutory violations, Plaintiffs are entitled to damages in an amount to be determined at trial.

**THIRD CLAIM FOR RELIEF**  
**VIOLATION OF THE WISCONSIN DECEPTIVE**  
**TRADE PRACTICES ACT; WIS. STAT. § 100.18**  
**(As To All Defendants Except Zemlyak By All Plaintiffs)**

154. Plaintiffs repeat and re-allege each of the foregoing paragraphs of this Complaint as if set forth in full.

155. The conduct described in this Complaint constitutes a violation of Wis. Stat. § 100.18, as Defendants sold and offered for sale securities to the public

making assertions, representations, and statements of fact to the public regarding the purchase and sale of such securities which were untrue, deceptive or misleading.

156. Plaintiffs have suffered damages as a result of Defendants' false and deceptive trade practices, including the assertions, misrepresentations, statements of fact and omissions described in this Complaint.

157. As a result of these statutory violations, the Plaintiffs are entitled to receive equitable relief, including rescission of the CDO transactions, pecuniary damages, costs, and attorney fees as prescribed by Wis. Stat. § 100.18.

**FOURTH CLAIM FOR RELIEF**  
**CONSPIRACY TO INJURE IN TRADE OR BUSINESS**  
**VIOLATION OF WIS. STAT. § 134.01**  
**(As To All Defendants By All Plaintiffs)**

158. Plaintiffs repeat and re-allege each of the foregoing paragraphs of this Complaint as if set forth in full.

159. In the manner described in this Complaint, the Defendants combined, associated, mutually undertook or otherwise acted in concert together for the purpose of willfully or maliciously injuring the Plaintiffs in their trade or business.

160. As a result of the Defendants' unlawful conduct, Plaintiffs have suffered damages.

**FIFTH CLAIM FOR RELIEF**  
**INTENTIONAL FRAUD**  
**FRAUD IN THE INDUCEMENT**  
**(As to All Defendants Except Zemlyak By All Plaintiffs)**

161. Plaintiffs repeat and reallege each of the foregoing paragraphs of this Complaint as if set forth in full.

162. As alleged with specificity in this Complaint, Defendants knowingly made false statements of fact to, and omitted or concealed true statements of fact from, the Plaintiffs. Defendants' false and incomplete statements created an untrue and misleading impression in the mind of Plaintiffs. With respect to each such true statement alleged to have been omitted or concealed by the Defendants, the Defendants owed each Plaintiff a duty to disclose the truth of such omitted or concealed fact. These facts were material in Plaintiffs' decision to invest in the Stifel GOAL Program and these CDOs because a reasonable person under the circumstances would regard the facts misrepresented and otherwise omitted as important in deciding to enter into these transactions. Defendants knew that Plaintiffs would find the misrepresented and omitted facts to be important in deciding how to proceed.

163. Defendants concealed these facts, or failed to correct their previous incomplete statements, with the intent of creating or perpetuating a false impression of the actual facts in Plaintiffs' mind and knowing Plaintiffs would not have taken the course of action they did had they been told all of the facts.

164. The statements and omissions of the Defendants as alleged herein were untrue.

165. Defendants knew or should have known at the time they made the representations and omissions that their affirmative statements as alleged herein were false and/or that their omissions or concealments were deceptive by virtue of being incomplete.

166. The Defendants made the false statements, and engaged in the omissions and concealments, with the intent to defraud the Plaintiffs and in order to induce the Plaintiffs to rely on the statements, omissions and concealments.

167. Each Plaintiff believed the false statements made to him, her or its agents, or believed that no facts existed inconsistent with Defendants' omissions and concealments, and reasonably acted in reliance upon those beliefs to his, her or its detriment.

168. As a result of their detrimental reliance on Defendants' fraudulent statements and omissions, Plaintiffs have suffered damages and are also entitled to rescission of the CDO transactions.

**SIXTH CLAIM FOR RELIEF**  
**STRICT RESPONSIBILITY MISREPRESENTATION**  
**(As to All Defendants Except Zemlyak By All Plaintiffs )**

169. Plaintiffs repeat and re-allege each of the foregoing paragraphs of this Complaint as if set forth in full.

170. As described specifically in this Complaint, Defendants made numerous representations and omissions of material fact to the Plaintiffs regarding the true nature of these CDO investments.

171. These material representations and omissions were false, deceptive and misleading.

172. Defendants made these representations and omissions as facts based on their knowledge, and the circumstances suggest that they ought to have known the truth or falsity of these representations and omissions.

173. Plaintiffs relied upon these representations and omissions in deciding to invest in the Stifel GOAL Program and these CDOs.

174. Defendants stood to and did make a significant financial gain when Plaintiffs entered into these transactions.

175. As a result of Defendants' misrepresentations and omissions, the Plaintiffs have suffered damages.

**SEVENTH CLAIM FOR RELIEF**  
**NEGLIGENT MISREPRESENTATION**  
**(As to All Defendants Except Zemlyak By All Plaintiffs)**

176. Plaintiffs repeat and reallege each of the foregoing paragraphs of this Complaint as if set forth in full.

177. As described specifically in this Complaint, Defendants made numerous representations and omissions of material fact to the Plaintiffs regarding the true nature of these CDO investments.

178. These material representations and omissions were false, deceptive and misleading.

179. Defendants were negligent, and failed to exercise ordinary care in making these representations and omissions.

180. Plaintiffs relied upon these representations and omissions in deciding to invest in the Stifel GOAL Program and these CDOs.

181. As a result of Defendants' misrepresentations and omissions, the Plaintiffs have suffered damages.

**EIGHTH CLAIM FOR RELIEF**  
**NEGLIGENCE**  
**(As to All Defendants By All Plaintiffs)**

182. Plaintiffs repeat and re-allege each of the foregoing paragraphs of this Complaint as if set forth in full.

183. The Defendants purport to be, and held themselves out as, experts in the investigation, analysis and evaluation of synthetic CDOs, credit default swaps and similar complex financial instruments and derivative securities involving credit obligations.

184. The Defendants failed to exercise ordinary care and diligence in establishing and executing sales of the Stifel GOAL Program, and in their investigation and analysis of the financial instruments and derivative securities that were purchased by Plaintiffs, as more fully set forth in the preceding paragraphs of this Complaint.

185. As a direct result of the Defendants' negligence, the Plaintiffs have suffered damages.

**NINTH CLAIM FOR RELIEF**  
**PROPERTY LOSS CAUSED BY CRIME**  
**VIOLATION OF WIS. STAT. § 895.446**  
**(As to All Defendants By All Plaintiffs)**

186. Plaintiffs repeat and re-allege each of the foregoing paragraphs of this Complaint as if set forth in full.

187. Defendants conduct constitutes a scheme and artifice to obtain Plaintiffs' money and property by means of deceiving Plaintiffs with false



representations, known by Defendants to be false and made by them with the intent to defraud the Plaintiffs.

188. Defendants obtained title to Plaintiffs' property by intentionally deceiving Plaintiffs with the false representations set forth in this Complaint, which representations were known to be false, were made with intent to defraud, and which did in fact defraud Plaintiffs, the persons to whom they were made, all in violation of Wis. Stat. § 943.20(1)(d).

189. Plaintiffs have suffered loss by reason of said intentional conduct. They were defrauded, deprived of their property, and have suffered damages.

190. Pursuant to Wis. Stat. § 895.446, Plaintiffs are entitled to recover actual damages, the costs of investigation and litigation, as well as exemplary damages of not more than three times actual damages.

**TENTH CLAIM FOR RELIEF**  
**BREACH OF CONTRACT**  
**(As to Stifel & RBC Global By All Plaintiffs as Third Party Beneficiaries)**

191. Plaintiffs repeat and re-allege each of the foregoing paragraphs of this Complaint as if set forth in full.

192. Defendants Stifel and RBC Global have contracted with self-regulatory organizations, including FINRA, to follow the regulations set forth to protect the investing public, including the Plaintiffs, but breached those agreements causing harm to the Plaintiffs, the intended beneficiary of such agreements.

193. As described in this Complaint, Defendants Stifel and RBC Global violated relevant rules, regulations, and customs of FINRA, including but not

limited to: Rule 2110 (Standards of Commercial Honor and Principles of Trade); Rule 2120 (Use of Manipulative, Deceptive or Other Fraudulent Devices); Rule 2310 (Suitability of Recommendations to Customers), including IM-2310-2 (Fair Dealing with Customers); and Rule 3010 (Supervision of Registered Representatives).

194. Stifel recommended the synthetic CDO products to the School Districts and the OPEB Trusts.

195. As an SEC registered broker-dealer and a Member of FINRA, Stifel had a duty to perform due diligence on any product it was recommending to its clients, including the synthetic CDOs, to gain a thorough understanding of the characteristics and potential risks of that product prior to recommending it to any client, and to explain those characteristics and risks fully and faithfully.

196. As a Member firm of FINRA, Stifel had a further duty, imposed by FINRA rule 2310, to make only those recommendations to the School Districts and the OPEB Trusts that were suitable to them in light of their investment needs, objectives, and risk tolerances, and to make full disclosure of the characteristics and risks of the investment when making the recommendation.

197. By recommending the synthetic CDO transactions to the School Districts and the OPEB Trusts, Stifel violated FINRA rule 2310 in that it failed to make full disclosure of the characteristics and risks of the synthetic CDOs, and in that the synthetic CDOs were unsuitable for the Plaintiffs, and the Plaintiffs were damaged thereby.

198. As described in this Complaint, the July 26, 2006 Presentation materials presented to the School Districts by RBC Global and Stifel, and the GOAL Program presentation materials submitted to the School Districts by Stifel, were materially false and misleading. The Defendants failed to clarify or explain the materially false and misleading statements contained in the presentation materials, and indeed made additional false and misleading statements verbally upon which the Plaintiffs relied to their detriment.

199. As such, the Defendants Stifel and RBC Global used Manipulative, Deceptive and/or a Fraudulent Devices in violation of FINRA Rule 2120; did not deal fairly with the School Districts in violation of FINRA Rule IM-2310-2; and failed to uphold principals of Commercial Honor and Fair Trade in violation of FINRA Rule 2110, and the Plaintiffs were damaged thereby.

200. The Defendants Stifel and RBC Global had an affirmative duty to supervise their registered representatives, including Zemlyak, Noack, Brewer, and Pederson, but failed to do so permitting the acts, errors, misrepresentations, and omissions complained of herein in violation of FINRA Rule 3010. The Plaintiffs have suffered damages as a result of the Defendants failure to abide by the applicable rule, registration, and violations of FINRA.

**ELEVENTH CLAIM FOR RELIEF**  
**INFORMATION NEGLIGENTLY PROVIDED**  
**FOR THE GUIDANCE OF OTHERS**  
**(As to All Defendants By All Plaintiffs)**

201. Plaintiffs repeat and reallege each of the foregoing paragraphs of this Complaint as if set forth in full.

202. As more fully set forth in the preceding paragraphs of this Complaint, the Defendants, acting in the course of their business, profession or employment, or acting in the course of transactions in which they had a pecuniary interest, provided the Plaintiffs with false information for the Plaintiffs' guidance in the business transactions that are the subject of this Complaint.

203. The Defendants did not exercise reasonable care or competence in obtaining or communicating the false information to Plaintiffs for their guidance in the subject business transactions.

204. The Plaintiffs justifiably relied on the false information supplied to them by the Defendants for their guidance in the subject business transactions.

205. As a result of Defendants' conduct, the Plaintiffs have suffered pecuniary losses.

**TWELFTH CLAIM FOR RELIEF**  
**CIVIL CONSPIRACY**  
**(As to All Plaintiffs against All Defendants)**

206. Plaintiffs repeat and re-allege each of the foregoing paragraphs of this Complaint as if set forth in full.

207. Beginning in or about January, 2006, and continuing to the present day, Defendants, and each of them, did combine, conspire, agree and agree together, in joint venture with unlawful purpose, and to accomplish a lawful purpose by unlawful means, to take the monies and funds of Defendants in the form of commissions and relief of responsibility for failing credit obligations, by

misrepresenting an investment, specifically the Stifel GOAL Program to induce, and which did induce, Defendants to invest in and pay money for.

208. The meetings, statements and agreements by and among Defendants and their representatives, as well as the means and methods, and overt acts of misstatements and omissions by Defendants, are as described in this Complaint.

209. Defendants came to mutual understanding to try to accomplish a common and unlawful plan to take the Plaintiffs money for themselves, and leave Plaintiffs exposed to extraordinary risk on credit obligations that Defendants made the Plaintiffs' responsibility.

210. Plaintiffs suffered damaged as a result of the conspiracy of Defendants, in at least the amount of their investment plus costs of investigation and litigation.

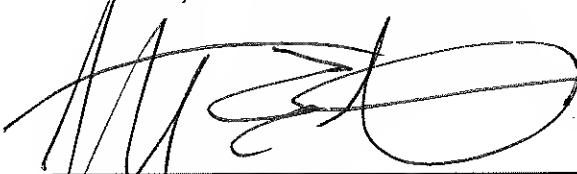
## PRAYER FOR RELIEF

WHEREFORE, Plaintiffs seek the following relief:

- A. Rescission of the transactions; plus, additionally or alternatively;
- B. Judgment awarding Plaintiffs compensatory, consequential and statutory damages; plus, additionally or alternatively;
- C. Judgment awarding Plaintiffs exemplary and punitive damages; plus, additionally or alternatively;
- D. Judgment awarding all lost opportunities incurred as a result of acts and/or omissions; plus, additionally or alternatively;
- E. Judgment awarding Plaintiffs actual damages, costs of investigation and litigation that are being reasonably incurred, plus exemplary damages of three (3) times the amount of actual damages, pursuant to Wis. Stat. § 895.446(3); plus, additionally or alternatively;
- F. Judgment awarding Plaintiffs attorney fees and costs; and
- G. Such other relief as the Court finds just and proper.

Dated this 22nd day of April, 2009.

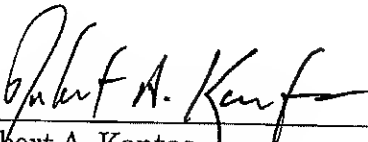
KRAVIT, HOVEL & KRAWCZYK



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Facsimile: 713-227-7215

# STIFEL NICOLAUS

## OPEB INVESTMENT MEETING

WHEN: July 26, 2006  
5:00 pm start  
Ending time will depend on the number of interviews

WHERE: Kenosha Unified School District  
District Administration Building  
3600 52nd St, Kenosha, WI 53144-2664

Invited Attendees - School Administration and Interested Board Members:

Kenosha Unified School District, School District of West Allis-West Milwaukee, School District of Waukesha, Kimberly Area School District, School District of Whitefish Bay, Watertown Unified School District.

On Tuesday, June 27<sup>th</sup> Stifel Nicolaus and Company ("Stifel") completed a partial funding of the OPEB liability for the School District of West Allis-West Milwaukee. The program was designed around the creation of an OPEB Trust established for the sole purpose of decreasing the overall liability over an extended period of time. Proceeds from a borrowing, issued by the OPEB Trust, along with funds borrowed by the School District, were used to purchase a "AA" rated fixed income security. The investment was structured to match the terms and interest rate resets of the borrowings with the least amount of risk. *This investment meets Wisconsin State sites prior to Act 99.*

The investment is a synthetic Collateralized Debt Obligation ("CDO"). A detailed summary of the product will be forthcoming. The portion of the CDO that will be purchased is in the "AA" or "AAA" rated class or tranche, which is a specified part of a larger transaction. This investment is growing in popularity within the investment community and is an \$80 billion market on an annual basis. Most buyers include banks and insurance companies. The firms that originate the CDO's are large Wall Street investment firms that have people who specialize in monitoring this type of investment. For the first phase of West Allis-West Milwaukee School District transaction, RBC Capital Markets won the bid providing the highest rate and level of experience.

In order to facilitate a more competitive process and to receive as many bids as possible, Stifel is setting up a meeting to interview potential CDO providers. This will assist the CDO providers in getting to know their potential clients and create a competitive environment that achieves a higher investment rate. The total liability represented by the invited Districts is over \$450 million.

Another point that the meeting will clarify with the potential CDO providers is their willingness to work along side Stifel in selling their product to all Districts, without standards on size. The West Allis-West Milwaukee School District transaction brought forward the issue of minimum purchaser size by requiring the District to be Qualified Purchaser, defined as having over \$25 million in liquid assets at one time during the fiscal year.oley and Lardner, Stifel's legal counsel, has identified exceptions to this rule for smaller clients. We are confident that a CDO provider will be more willing to work with us on this issue once the meeting is completed.

STIFEL, NICOLAUS & COMPANY, INCORPORATED

309 NORTH WATER STREET, SUITE 150 | MILWAUKEE, WISCONSIN 53202 | (414) 270-0190 | (877) 663-0646 | WWW.STIFEL.COM  
MEMBER SIPC AND NYSE

EXHIBIT A  
(Amended Complaint)



# STIFEL NICOLAUS

Stifel will provide food and beverages for the meeting. The meeting will begin with a short presentation on CDO's followed by interviews with the various firms that respond to the invite. The Kenosha site was chosen in order to increase participation since many of the CDO providers are located in Chicago. More information will be provided once the list of CDO providers attending is finalized. Interested parties to date include RBC Capital Markets, Wachovia Bank, and JP Morgan.

Your attendance is greatly appreciated. Please RSVP to Johanna Perrini at (414) 270-0190 or via email at [perrinij@stifel.com](mailto:perrinij@stifel.com).

Thanks again,

David Noack  
Senior Vice President  
*Stifel, Nicolaus & Company*

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STIFEL, NICOLAUS & COMPANY, INCORPORATED

309 NORTH WATER STREET, SUITE 150 | MILWAUKEE, WISCONSIN 53202 | (414) 270-0190 | (877) 663-0646 | [WWW.STIFEL.COM](http://WWW.STIFEL.COM)  
MEMBER SIPC AND NYSE

**WISCONSIN SCHOOL DISTRICT  
SYNTHETIC CDO TRANSACTION SUMMARIES**

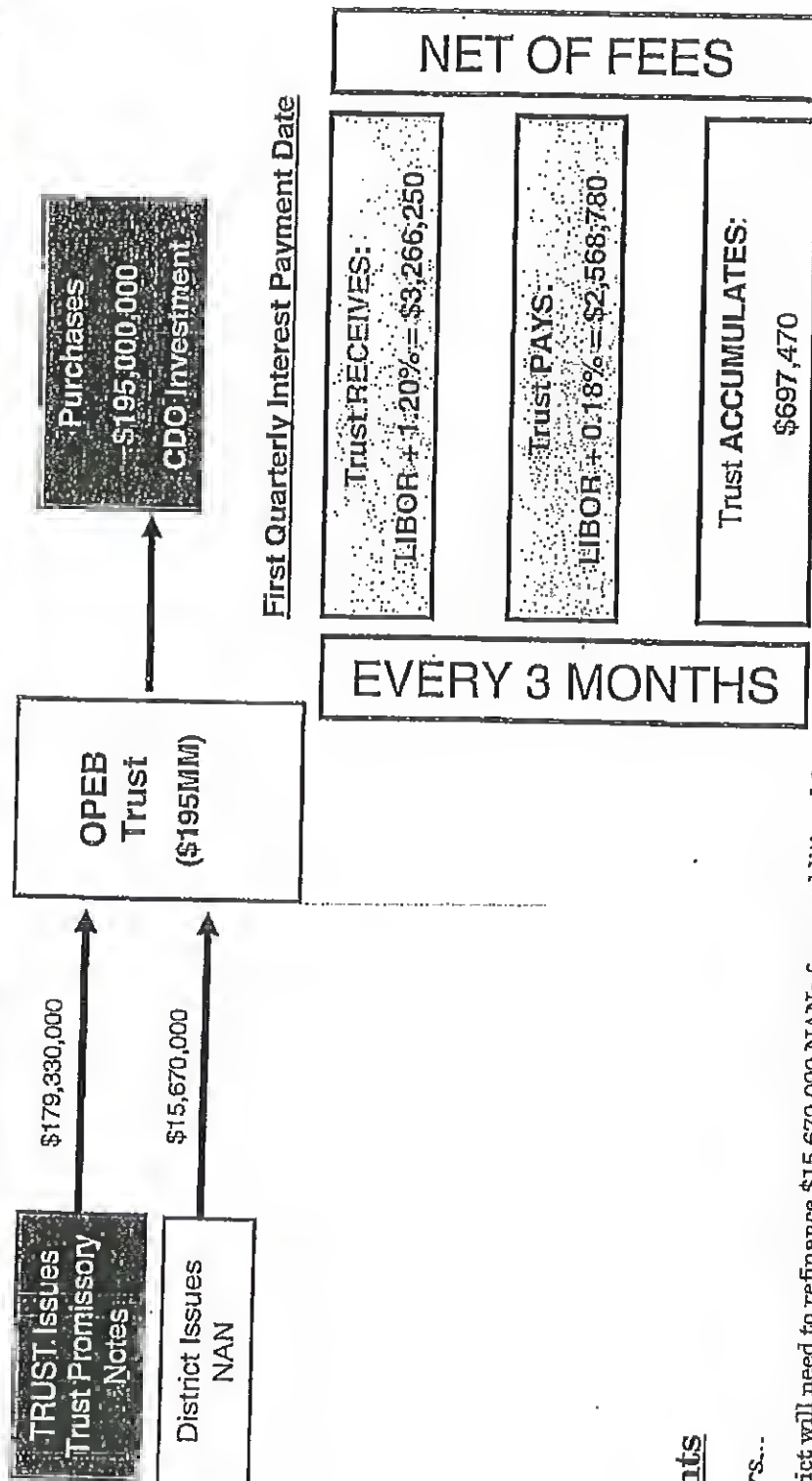
School District	CDO Purchased	Closing Date	District Contribution	Debt Instrument Issued by District	Trust Contribution	Debt Instrument Issued by Trust	Investment Amount (net of closing costs)
Kenosha	Sentinel Series 1	September 29, 2006	\$9,500,000	TNAN	\$8,200,000	Series 2006A Note	\$17,500,000
	Sentinel Series 2	December 21, 2006	\$0	n/a	\$20,200,000	Series 2006B Note	\$20,000,000
	<b>TOTAL</b>		<b>\$9,500,000</b>		<b>\$28,400,000</b>		<b>\$37,500,000</b>
Kimberly	Sentinel Series 2	December 21, 2006	\$800,000	n/a	\$4,300,000	Series 2006A Note	\$5,000,000
	<b>TOTAL</b>		<b>\$800,000</b>		<b>\$4,300,000</b>		<b>\$5,000,000</b>
Waukesha	Sentinel Series 1	September 29, 2006	\$15,670,000	TNAN	\$9,600,000	Series 2006A Note	\$25,000,000
	Sentinel Series 2	December 21, 2006	\$0	n/a	\$40,400,000	Series 2006B Note	\$40,000,000
	<b>TOTAL</b>		<b>\$15,670,000</b>		<b>\$50,000,000</b>		<b>\$65,000,000</b>
West Allis-West Milwaukee	Tribune Series 30	June 27, 2006	\$2,485,850	TNAN	\$22,700,000	Series 2006A Note	\$25,000,000
	Sentinel Series 1	September 29, 2006	\$8,380,000	TNAN	\$9,300,000	Series 2006B Note	\$17,500,000
	Sentinel Series 2	December 21, 2006	\$0	n/a	\$40,400,000	Series 2006C Note	\$40,000,000
Whitefish Bay	<b>TOTAL</b>		<b>\$10,865,850</b>		<b>\$72,400,000</b>		<b>\$82,500,000</b>
Whitefish Bay	Sentinel Series 2	December 21, 2006	\$500,000	n/a	\$9,700,000	Series 2006A Note	\$10,000,000
	<b>TOTAL</b>		<b>\$500,000</b>		<b>\$9,700,000</b>		<b>\$10,000,000</b>
	<b>TOTAL</b>		<b>\$37,335,850</b>		<b>\$164,800,000</b>		<b>\$200,000,000</b>

CDO Product	Kenosha	Kimberly	Waukesha	West Allis-West Milwaukee	Whitefish Bay	Total Invested
Sentinel Series 1	\$17,500,000	\$0	\$25,000,000	\$17,500,000	\$0	\$60,000,000
Sentinel Series 2	\$20,000,000	\$5,000,000	\$40,000,000	\$40,000,000	\$10,000,000	\$115,000,000
Tribune Series 30	\$0	\$0	\$0	\$25,000,000	\$0	\$25,000,000
<b>Totals</b>	<b>\$37,500,000</b>	<b>\$5,000,000</b>	<b>\$65,000,000</b>	<b>\$82,500,000</b>	<b>\$10,000,000</b>	<b>\$200,000,000</b>

Key:

Sentinel Series 1	Sentinel Limited Series I Floating Rate Credit Linked Secured Notes due 2013 (CUSIP No. G8060P AA5)
Sentinel Series 2	Sentinel Limited Series II Floating Rate Credit Linked Secured Notes due 2013 (CUSIP No. 817275 AA8)
Tribune Series 30	Tribune Limited Series 30 Floating Rate Credit Linked Secured Notes due 2013 (CUSIP No. 896076 A09)
TNAN	Taxable Note Anticipation Notes (general obligation promissory note)

# Stifel's GOAL Program, Flow of Funds



Cashflow repeated every three months

ANNUAL RETURN =

\$2,789,880

## Future Events

- ✓ In 5 years...
  - ✦ District will need to refinance \$15,670,000 NANs for an additional 2-year period
- ✓ In 7 years...
  - ✦ CDO Investment matures and Trust receives cash to pay off debt
  - ✦ Process could be repeated if financially advantageous

EXHIBIT C  
(Amended Complaint)

STIEHL NICOLAUS

CONFIDENTIAL - Proprietary Information